

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
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P R 051647Z JAN 76

FM AMEMBASSY LISBON

TO SECSTATE WASHDC PRIORITY 5514

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

S E C R E T LISBON 0042

EXDIS

E.O. 11652: GDS

TAGS: EFIN, EAID, PO

SUBJ: PORTUGUESE INTERNATIONAL LIQUIDITY CRISIS

REF: STATE 000028 (NOTAL)

1. EMBASSY APPRECIATES PROMPT INTER-AGENCY GROUP  
CONSIDERATION OF REF SUBJECT. FOLLOWING ARE OUR OBSERVATIONS  
AND COMMENTS ON POINTS RAISED IN REFTEL:

2. IMF SURVEY: EMBASSY UNDERSTANDS THAT GOP HAS CONSCIOUSLY  
DELAYED APPLYING FOR FIRST CREDIT TRANCHE LOAN UNTIL AFTER RE-  
CEIVING APPROVAL OF ITS REQUEST FOR OIL FACILITY LOAN. THIS  
PROCEDURE APPARENTLY ADOPTED ON ADVICE FROM IMF TECHNICAL STAFF.  
NOW THAT OIL FACILITY LOAN HAS BEEN APPROVED, EMBASSY PRESUMES  
GOP HAS, OR SOON WILL, APPLY AGAINST FIRST CREDIT TRANCHE.  
REQUEST WILL PROVIDE OPPORTUNITY FOR IMF SURVEY OF PORTUGUESE  
ECONOMY AND GOP POLICIES. EMBASSY WILL RECOMMEND TO GOP THAT  
LATTER REQUEST SIMILAR SURVEY BY OECD.

3. ECONOMIC RECOVERY PROGRAM: GOP ECONOMIC PROGRAM NOW  
DEFINITELY TAKING SHAPE AND SHOULD PROVIDE BASIS FOR DISCUS-  
SIONS WITH POTENTIAL FOREIGN AID DONORS. AN INTER-MINISTERIAL  
COMMITTEE HAS, MEANWHILE, BEEN GATHERING INFORMATION ON GOP  
INVESTMENT PROJECTS THAT ARE READY FOR IMPLEMENTATION. RESULTS  
OF THIS EFFORT SHOULD BECOME EVIDENT DURING GOP MEETING WITH

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EUROPEAN COMMUNITY LATER THIS WEEK. (ANY INFORMATION EC

BRUSSELS CAN DEVELOP ON THOSE SESSIONS WOULD BE APPRECIATED.)

4. COMPENSATORY FINANCING FACILITY (CFF): ECON COUNSELOR HAS DISCUSSED CFF WITH VARIOUS GOP OFFICIALS. LATTER ARE, THEREFORE, UNDOUBTEDLY AWARE OF THIS FACILITY, BUT EMBASSY DOUBTS THAT THIS SOURCE CAN BE EXPECTED TO PROVIDE PORTUGAL ANY SIGNIFICANT FINANCING OVER THE SHORT TERM. EMBASSY UNDERSTANDS THAT CFF DESIGNED TO OFFSET DECLINES IN EXPORTS OF PRIMARY GOODS, NOT IN INVISIBLE EARNINGS. PLEASE CONFIRM. EMBASSY WILL AGAIN RAISE CFF AS WELL AS POSSIBLE DRAWINGS AGAINST OTHER CREDITS TRANCHES FOR GOP CONSIDERATION.

5. TOURISM AND IMMIGRANT REMITTANCES: GOP HAS DEMONSTRATED RENEWED INTEREST IN STIMULATING TOURIST INDUSTRY. AMBASSADOR PLANS TO MEET SOON WITH DIRECTOR GENERAL FOR TOURISM TO PRESS FOR INCREASED ACTIVITY. GOP ALSO HIGHLY AWARE OF NEED, AND ACTIVELY CONSIDERING MEASURES, TO REESTABLISH IMMIGRANT CONFIDENCE. IMMIGRANTS, FOR EXAMPLE, MAY BE PERMITTED TO OPEN FOREIGN CURRENCY BANK DEPOSITS IN PORTUGAL WITH A GUARANTEE OF UNRESTRICTED REMITTANCE RIGHTS.

5. P.L. 480: WHILE EMBASSY APPRECIATES CONGRESSIONAL RESTRICTIONS ON DISTRIBUTION OF P.L. 480 CREDITS, URGE DEPARTMENT SEEK EXPANDED ALLOTMENT FOR PORTUGAL. GOP HAS PRESSED US FORCEFULLY FOR MORE P.L. 480 CREDITS AND HAS STATED IT COULD EASILY UTILIZE A SIGNIFICANT INCREASE. DURING CY 1976, PORTUGAL PLANS TO IMPORT FOLLOWING PRODUCTS, IN ADDITION TO RICE, FROM THE U.S. (IN THOUSANDS OF METRIC TONS): WHEAT - 247.4; CORN - 726.0; SORGHUM - 21.8; SOYBEANS - 38.8; SUNFLOWER - 19.6; COTTON (LINT) - 14.6; AND TALLOW - 5.9.

6. GOLD: GOP HAS, AS REPORTED EARLIER, DECIDED TO EMPLOY ITS GOLD HOLDINGS, EITHER THROUGH GOLD-SECURED LOANS OR SALES. EMBASSY ATTEMPTING TO VERIFY PRESS REPORT OF JANUARY 5 THAT PORTUGAL SEEKING TO SELL UP TO 30 TONS OF GOLD IN SWITZERLAND.

7. PRIVATE BANKS: POSSIBILITY OF SIGNIFICANT NEW FINANCING FROM PRIVATE BANKS OVER THE SHORT TERM APPEARS DIM. THIS FACT DEMONSTRATED BY INABILITY OF GOP TO CONCLUDE MEANDINGFUL AGREEMENT FOR \$150 MILLION WITH CITICORP-LED CONSORTIUM. IN  
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FACT, COMMERCIAL BANKS CONTINUE TO COLLECT RATHER THAN RENEW SHORT-TERM MEDIUM CREDITS AS THEY MATURE. EMBASSY WOULD APPRECIATE AGGRESSIVE EFFORTS BY DEPT TO REVERSE THIS ATTITUDE.

8. SWAP: EMBASSY UNDERSTANDS THAT FEDERAL RESERVE, THROUGH EXCHANGE STABILIZATION FUND AT NEW YORK RESERVE, HAS IN THE PAST ARRANGED ONE-YEAR SWAPS WITH SEVERAL LATIN AMERICAN COUNTRIES. WE WOULD HOPE THAT SOMETHING SIMILAR MIGHT BE AR-

RANGED FOR PORTUGAL, USING GOLD AS SECURITY. EVEN SIX-MONTH  
SWAP WOULD BE HIGHLY DESIRABLE. SUCH AN ARRANGEMENT, BOTH  
BECAUSE OF ITS EVIDENT DISPLAY OF OFFICIAL U.S. SUPPORT FOR  
GOP AND BECAUSE OF LIQUIDITY IT PROVIDES, WOULD HAVE PARTI-  
CULARLY STRONG IMPACT ON POLITICAL DEVELOPMENTS AND PRIVATE  
SECTOR CONFIDENCE.  
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## Message Attributes

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**Draft Date:** 05 JAN 1976  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
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**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
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**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 24 MAR 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <24 MAR 2004 by izenbei0>; APPROVED <24 MAR 2004 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PORTUGUESE INTERNATIONAL LIQUIDITY CRISIS  
**TAGS:** EFIN, EAID, PO  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006